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RHEHNSC/NSC WASHDC 0826
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SUBJECT: KAZAKHSTAN: GENERAL ELECTRIC'S TWO TESTS

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¶1. (U) Sensitive but unclassified. Not for public Internet.

¶2. (SBU) SUMMARY: On February 25, General Electric (GE) executives briefed the Ambassador on the company's current projects and future prospects in Kazakhstan. Ron Pollett, President and CEO of GE Russia/CIS, said he has "two tests" for the government of Kazakhstan in 2009. The first will be whether it fulfills commitments made in a December 2008 MOU to sign contracts with GE worth up to \$1 billion on locomotive procurement, servicing, and signaling (reftel). The second will be the government's decision to award a contract for compressor stations for the Uzbekistan-Kazakhstan-China gas pipeline. Pollett said GE has already won related contracts in Uzbekistan and China and hopes to win the final contract in Kazakhstan. Pollett told the Ambassador that GE does not plan to reduce staff or curtail operations in Russia or the CIS, although the company may restructure its consumer lending business in Russia. He also indicated interest in pursuing contracts in the health-care industry, but expressed concern about corruption. In 2008, total revenue for GE Russia/CIS was \$2.2 billion, including \$260 million in Kazakhstan. Pollett said he expects 2009 revenue in Kazakhstan to be approximately \$350 million. END SUMMARY.

GE EXPECTS TO SIGN RAIL CONTRACTS THIS SPRING

¶3. (SBU) Pollett said GE expects to sign a series of rail contracts worth up to \$1 billion as soon as April 15, although the date could slip to May, when GE's CEO Jeffrey Immelt is expected to visit Kazakhstan. However, Pollett worried that the financial crisis could adversely impact the deal. "We don't think they'll back out of the deal," said Pollett, "but we're concerned that KTZ (national railway operator Kazakhstan Temir Zholy) will not sign the contracts according to the timeline in the MOU, since they collect revenue in tenge and purchase equipment in dollars." Pollett said GE will honor the commitments it made in the December MOU, including acquisition of a 15 percent stake in the locomotive manufacturing

facility in Astana. "We'll go forward if Kazakhstan goes forward," he said.

SIEMENS CEO ANNOUNCES ITS OWN LOCOMOTIVE DEAL

¶4. (U) Pollett was in Astana for less than 24 hours to meet with senior government officials, particularly Samruk-Kazyna Chairman Kairat Kelimbetov, whom he called "our champion." He returned to Moscow on February 26, the same day that Siemens CEO Peter Loscher arrived in Astana. According to local press reports, in December 2008, KTZ subsidiary JSC Locomotive signed a contract with China's Zhuzhou Electric Locomotive Company to supply 22 passenger locomotives equipped with Siemens traction equipment and controlling systems. During Loscher's visit on February 26, KTZ president Askar Mamin said, "Although we received other offers, our experts found Siemens' offer the most suitable solution." Loscher said there is growing demand for freight locomotives in Kazakhstan and announced that Siemens would start a project to design an advanced engine in accordance with Kazakhstan's technical specifications.

ALLEGATIONS OF CORRUPTION IN THE HEALTH CARE SECTOR

¶5. (SBU) Pollett also told the Ambassador that GE would like to enter the health-care industry in Kazakhstan and is already speaking to local companies with x-ray and mammography technology about building a mobile mammography diagnostic machine that could serve the entire female population of Kazakhstan. Unfortunately, according to Pollett, the health-care sector in Kazakhstan is "extremely corrupt and Siemens is a big part of the problem." Pollett said that "third-party, offshore trading companies have a stranglehold on the market." According to Pollett, they monopolize supply and charge two to three times market rates to supply high-technology medical equipment. The Ambassador relayed an invitation from Minister of Health Doskaliyev, who told the Ambassador on February 12 that he was eager to meet with GE's

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representatives to discuss future cooperation in Kazakhstan and in the region writ large.

GE HOPES TO SUPPLY COMPRESSORS FOR GAS PIPELINE

¶6. (SBU) Pollett noted that the Kazakhstani government will be awarding a contract for compressor stations for the Kazakhstani portion of the Uzbekistan-Kazakhstan-China gas pipeline. He claimed that GE submitted the best bid on both technical and cost aspects of the project: "We should win that contract," he said, particularly since GE has already been awarded the contract to work on the pipeline segments in Uzbekistan and China. In closing, Pollett noted that GE has five offices in Kazakhstan and plans to be in country for years to come. "We're not here just to win one or two contracts and leave," he said. "We look at each of our projects in the context of a long-term strategy."

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